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Financial Report
OF
GEO. A. HORMEL & COMPANY
AUSTIN, MINNESOTA
for the
Fiscal Year Ended October 28, 1939

OFFICERS

Geo. A. Hormel - - - - - Chairman of the Board
Jay C. Hormel - - - - - President
Ben F. Hormel - - - - - Senior Vice President
H. H. Corey - - - - - Vice President & General Manager
R. H. Daigneau - - - - - Vice President
C. D. Bigelow - - - - - Secretary
M. F. Dugan - - - - - Treasurer

DIRECTORS

S. D. Catherwood
H. H. Corey
R. H. Daigneau
Park Dougherty
M. F. Dugan
John P. Higgins
T. H. Hocker
Ben F. Hormel
Geo. A. Hormel
Jay C. Hormel
O. W. O'Berg
L. E. Wakefield

Austin, Minn.
Nov. 25, 1939

To the Stockholders of
Geo. A. Hormel & Company

The earnings statement and balance sheet of your company for the year ended October 28, 1939, is submitted herewith.

The total sales of product for the year amounted to 436,806,790 pounds, which was an increase of 26,596,219 pounds, or about 6.5 per cent, over a year ago. In dollars, net sales amounted to \$60,344,086.99, an increase of \$3,422,438.65, or about 6 per cent, over last year.

Hog slaughter of 1,093,439 set an all-time high for a year, and was 13.4 per cent larger than the hog slaughter for last year. However, we slaughtered 14,728 less cattle and 27,320 less sheep and lambs than a year ago.

The net worth of the company now stands at \$10,754,208.59, an increase of \$826,165.07 since a year ago. Inasmuch as legal questions with respect to processing taxes still exist, we have continued as a current liability a reserve in the full amount of the processing tax about which there is still any dispute. This leaves net current assets at \$5,412,135.40, which is an increase of \$823,668.92 over a year ago.

The company is continuing to price its inventory at the lower of cost or market, as has been its custom in the past. All known bad debts have been charged off in full. Loss on capital assets scrapped or disposed of has been charged off in full. \$376,515.10 has been charged off for depreciation on plant and equipment. The balance sheet carries substantial reserves for other contingencies. All taxes have been provided for, including Social Security assessments.

Our Minnesota unemployment compensation contributions for the fiscal year 1939 amount to \$158,483.69. This will bring our total contribution, as of October 28, 1939, to \$401,858.52.

By avoiding those fluctuations in employment which would entitle substantial numbers of our employees to claim unemployment compensation benefits, we can, beginning in 1941, cut our rate of contribution from 2.7 per cent to as low as $\frac{1}{2}$ of 1 per cent of our Minnesota payroll, and earn a saving of \$129,135.23 per year, using our present employment as a base.

Again, this year, in giving an account of its stewardship, the management of your company wishes to acknowledge, not only its obligation to serve the public well, but also specifically, its obligation to live stock producers and to company employees as well as to stockholders.

We tell the producer that the price of his live stock is set by the price which the housewife is willing to pay for meat. We tell him we are his sales agent, and that we are continually endeavoring to secure for him the highest possible price for his live stock.

If the packer, in his working for the farmer, could work as sales agents so often do work—on a percentage basis paid by the seller—the producer would readily understand the service which the packer renders him. Actually, no method has been arranged for calculating the pay which the packer should get for his service as the producer's sales agent. The only compensation the

packer can get is that margin which competition permits him to withhold as the merchandise passes through his hands. From the greatest amount of money which the packer can secure for the finished product, he pays the producer the market price for the live stock the packer buys that day. From any money that is left, the packer pays his operating expenses. After that, whatever is left—if anything is left—is net payment to the packer for his service as the producer's sales agent.

Up to now I never have happened to talk to a farmer who thought he was getting too much money for his live stock. Neither have I ever happened to meet the packing house worker who thought his wages were too high, nor the packer who thought he was making too much profit.

Average performance in any of these three fields should, and I believe does, bring average compensation. Extra-good performance should, and I believe does, usually, bring extra compensation.

The live stock producer who saves more pigs—who gets better gains for his feed—who gives his hogs better finish—gets more money and makes more profit.

The packing house worker who does his work better and more efficiently tends to get higher wages.

The packer who serves the live stock producer best—that is to say, the packer who operates most efficiently—who contributes most to developing new products and more effective methods of operating and selling—should make the best profits.

It is extremely difficult for us to show the live stock producer just how much he does benefit by product development and by increased operating and selling efficiency in the packing industry. We all know that if the consumer had to buy a live hog in order to eat pork, the inconvenience and waste to the consumer would very much lessen the consumption of pork and thereby would very much lessen the market price of hogs. When we offered the consumer dressed carcasses instead of live animals, we increased the convenience and economy to the consumer and thereby increased the market for and the price of hogs. When we started cutting up carcasses, we made further progress. In this same way, every little refinement in the processing of pork products contributes something to the market for and to the price of hogs. It is difficult to measure the effect of such progress on the hog market, but we can be sure that every little improvement in the process or manufacture or distribution or merchandising of meat tends to be a direct service to the live stock producer.

We realize that the only compensation the company can receive will be the money we get for doing a good job as the farmer's sales representative. We are trying to maintain a forward position in the development of new forms in which live stock products can be merchandised. Each year we contribute a large number of less important improvements. We can't get a new SPAM every year, but we are always trying to do a job for the live stock producer.

The management also wishes to call attention to the manner in which the company has discharged its obligation to employees.

Economists are agreed that the producing machinery of this nation is capable of providing a satisfactory income for all of our people.

The reason we have unemployment and want today obviously gets back to the fact that we are not producing and distributing as we should. The existence of want amidst plenty is absurd.

So is the theory of prosperity through scarcity. The theory of something for nothing will not stand up. Therefore, we must produce. In the complicated economy of this modern world, we are told that proper distribution of what we produce is one of our greatest problems.

In the problem of distributing what we produce, this company has long believed that with respect to any individual, regularity of income is important. The company has developed employment policies which have given its employees dependability of income. We are now entering the sixth year in which our employees have known that their employment is dependable and regular.

Since this annual wage plan was undertaken, the company has endeavored to extend its policies by practical application of the theory that, in order to have, we must produce. To make this theory work, we must set up a situation in which it is true that, in proportion to what we produce, we get.

This thought led to the establishment of a budget and bonus plan through which an effort has been made to pay employees in proportion to what they produce. Under the budget and bonus plan, \$231,775.61 additional compensation was distributed to employees of the company this past year.

Inasmuch as the joint effort of all employees yields a production which cannot be attributed to any one individual or to any one group, we have this past year put in effect a new plan which is known as the joint earnings plan, and which is designed to compensate the Austin employee group as a whole for the extra production which is measurable only by the increased return to the business as a whole.

The theory on which our employment plans have been based is that the surest way for a person to make money is to find ways of making money for those who are associated with him in business. It is our belief that by making it possible for our employees to earn more money for themselves in proportion to what they produce, we will be encouraging them to do those things which are fundamentally good for the business. Anything which is fundamentally good for the business should eventually result in added profit to the stockholders.

The company owes no money to banks, has no indebtedness beyond current and customary bills, and has current assets to cover all current liabilities in the ratio of 2.865 to 1. Although no material additions have been made to the Austin plant, operations have been established in leased quarters in several cities for the manufacture and final processing of a number of the company's branded and trademarked products. A considerable amount of new machinery and equipment has been necessary for these added operations.

In general, we have taken such steps in the management of the company as we believe will safeguard the ability of the company to provide a continually increasing marketability for the products of live stock, safeguard the opportunity of our employees to find here increasingly secure and remunerative employment, and safeguard the investment and the income of our stockholders.

JAY C. HORMEL
President

CONSOLIDATED

Geo. A. Hormel & Company -

October

ASSETS

CURRENT

Cash -----		\$ 2,300,309.66
Trade accounts receivable — less reserve of \$100,000.00 -----		2,270,919.07
Inventories:		
Products priced on the basis of year-end market or accumulated cost (i. e. market at date of production) whichever is low- er -----	\$3,176,266.18	
Livestock and supplies at the lower of cost or market -----	565,640.74	3,741,906.92
TOTAL CURRENT ASSETS		\$ 8,313,135.65

INVESTMENTS AND OTHER ASSETS

Properties not used in operations, at cost less reserves for depreciation of \$10,589.17 -- \$	80,736.00	
Sundry securities, notes, accounts, etc, less reserve of \$55,900.00 -----	37,321.54	
Notes, accounts and stock purchase contracts receivable from employees -----	14,163.23	132,220.77

PROPERTY, PLANT AND EQUIPMENT

Land — at cost -----	\$ 163,423.57	
Buildings, machinery and equipment, etc.— at cost less reserves for depreciation of \$2,581,947.50 -----	\$5,251,401.03	5,414,824.60

PREPAID

Supplies inventories, unexpired insurance, etc.	137,947.38	
	<u>\$13,998,128.40</u>	

BALANCE SHEET

Austin, Minnesota, and Subsidiary

28, 1939

LIABILITIES

CURRENT

Accounts payable-----\$ 1,161,380.02

Taxes:

Provision for Federal and State taxes on income,
local taxes and pay roll taxes— estimated----- 797,646.95 \$1,959,026.97

Reserve for undetermined liabilities in connec-
tion with invalidation of processing taxes----- 941,973.28

TOTAL CURRENT LIABILITIES \$2,901,000.25

RESERVE—for contingencies----- 329,549.16

MINORITY INTEREST—in capital stock and
surplus of subsidiary----- 13,370.40

CAPITAL STOCK AND SURPLUS

Preferred stock—cumulative—par value \$100.00

Authorized 48,935 shares

Issued Class A—6% (callable at \$105.00)

14,554 shares, including 100 in treasury-----\$ 1,455,400.00

Common stock—no par value

Authorized 500,000 shares

Issued 493,944 shares, including 18,944 in
treasury----- 6,116,585.81

Surplus----- 3,426,806.34

\$10,998,792.15

Less capital amount of shares in treasury----- 244,583.56 10,754,208.59

\$13,998,128.40

Contingent liabilities—\$34,928.05

SUMMARY OF INCOME AND SURPLUS
 Geo. A. Hormel & Company - Austin, Minnesota
 and Subsidiary

Fiscal Year Ended October 28, 1939

Net Sales			\$60,344,086.99
Deduct:			
Cost of goods sold, selling, administrative and general expenses, exclusive of depreciation and taxes	\$57,307,067.41		
Provision for depreciation	376,515.10		
Interest paid	\$29,486.34		
Other Charges	44,736.27		
	\$74,222.61		
Less other income	48,176.88	26,045.73	57,709,628.24
			<u>INCOME BEFORE TAXES \$ 2,634,458.75</u>
Less Taxes:			
Local taxes	\$ 233,746.93		
Pay roll taxes	302,222.08		
Provision for Federal and State income taxes, including additional provision of \$13,983.81 for prior years	497,488.81		
		TOTAL TAXES	<u>1,033,457.82</u>
		NET INCOME	\$ 1,601,000.93
Dividends on preferred stock — \$6.00 per share			<u>86,724.00</u>
		INCOME APPLICABLE TO COMMON STOCK	\$ 1,514,276.93
Dividends on common stock — \$1.50 per share			<u>712,501.64</u>
		BALANCE OF NET INCOME TO SURPLUS	\$ 801,775.29
Surplus—October 29, 1938			2,600,765.09
Processing tax reserve of subsidiary company returned to surplus			31,036.59
Excess of proceeds over capital amount of treasury stock sold			<u>123.68</u>
			<u>\$ 3,433,700.65</u>
Deduct:			
Cost of 675 shares of subsidiary company stock in excess of book value thereof	\$ 6,025.53		
Capital contribution to subsidiary insuring to minority interest	868.78		6,894.31
			<u>\$ 3,426,806.34</u>
			<u><u> </u></u>

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

To the Board of Directors,
Geo. A. Hormel & Company:

We have examined the consolidated balance sheet of GEO. A. HORMEL & COMPANY and its subsidiary as of October 28, 1939, and the consolidated statements of profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate.

Our examination included tests of accounts receivable by direct correspondence with debtors. In respect of inventories we thoroughly reviewed the procedure followed by the Companies in establishing quantities and valuation and we satisfied ourselves by observation and test counts at the main plant and selected branches that adequate methods were used in determining quantities.

In our opinion, the accompanying consolidated balance sheet and related summaries of profit and loss and surplus present fairly the consolidated position of the Company and its subsidiary at October 28, 1939, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota,
November 14, 1939.

SINCE no advertising equals the spoken word of an enthusiastic user, every stockholder is urged to become acquainted with all the products of the Company, to discover their convenience and the goodness of them, and to recommend them to his friends. The following is a partial list of Hormel products which may be identified by brand in your food store:

HORMEL BRANDED BEEF

Best

Merit

Value

Hormel

HORMEL BRANDED LAMB

Best

Merit

Value

HORMEL HAM

Dairy Tender Sweet Ham
Tendered.

Del-i-Cut Ham
Ready to serve

Dairy Boiled Ham

Dairy Roast Ham
Delicatessen Style

Dairy Baked Ham

HORMEL BACON

Dairy Slab Bacon

Minnesota Slab Bacon

Canadian Style Bacon
Sliced in cellophane packages, or by the piece

Dairy Sliced Bacon

Dairy Deluxe Sliced Bacon
In the green carton. This is the most carefully
selected and choicest of all bacon. Costs more. Worth it.

Minnesota Sliced Bacon

HORMEL SAUSAGE

Minnesota Fresh Country Style Pure Pork Sausage
The sausage that comes by the yard.
The most popular sausage we make.

Dairy Link Pure Pork Sausage
Sage added

Minnesota Ringwurst
Country Style Bologna

Minnesota Smoked Country Style Pure Pork Sausage

Dairy Braunschweiger

Minnesota Braunschweiger

Dairy Wieners

Minnesota Baked Luncheon Loaves

Dairy Liver Cheese

Dairy Cervelat

Dairy Goteborg

Dairy Salami

LARD IS STILL THE BEST SHORTENING

Dairy Lard
Finest open kettle rendered.
Pails and Cartons

Hormel Minnesota Lard
In the Famous Red and Yellow
Pails and Cartons

HORMEL CANNED MEATS

Keep a generous supply in your pantry



APPETIZERS

SPAM

Flavor-Sealed Quarter Hams
(1 lb. 6 oz. to 1 lb. 14 oz.)

Flavor-Sealed Half Hams
(2 lb. 12 oz. to 3 lb. 4 oz.)

Flavor-Sealed Midget Hams
(6 - 7 lb. family size)

12-ounce Spiced Ham

12-ounce Luncheon Meat

FLAVOR-SEALED SOUPS

Vegetable Soup

Vegetable-Beef Soup

Onion Soup

Chicken Noodle Soup

Pea Soup

Chicken Consomme'

Beef Consomme'

Consomme' Madrilene

CHICKEN DELICACIES

Flavor-Sealed Whole Chicken

Flavor-Sealed Half Chicken

Flavor-Sealed 6 oz. Bnls. Chicken

Flavor-Sealed Chicken a la King

FLAVOR-SEALED SPECIALTIES

Chili Con Carne

Little Pork Sausages

Cocktail Sausages

Ham a la King

Dairy Brand Wieners

Corned Beef Hash

DINTY MOORE PRODUCTS

Dinty Moore Beef Stew

Dinty Moore Spaghetti & Meat Balls

Dinty Moore Ox-Joints

Dinty Moore Irish Stew

Dinty Moore Corned Beef & Cabbage

INSTITUTIONAL PACKAGES

Flavor-Sealed Whole Hams

Flavor-Sealed Square Hams

Dairy Brand Spiced Ham

Dairy Brand Luncheon Meat

Minnesota Luncheon Meat

Dairy Brand Pork Loin

Dairy Brand Pork Tongue

Dairy Brand Bacon

